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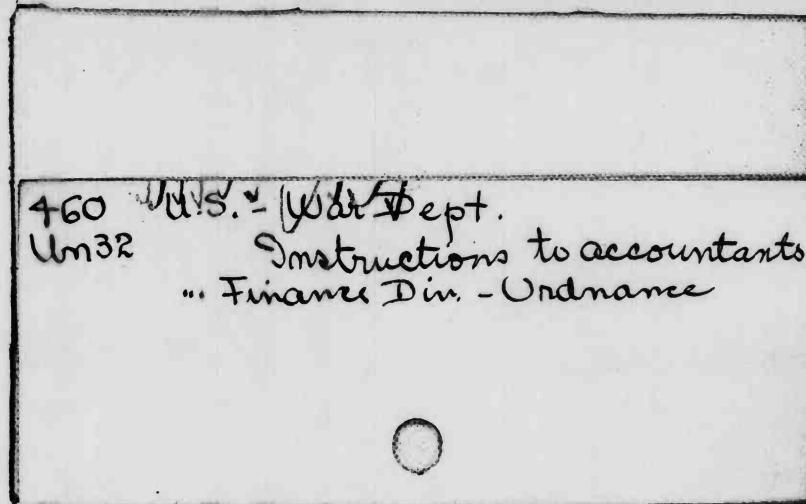
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No. 1623      SCHOOL OF BUSINESS  
                  COLUMBIA UNIVERSITY

# INSTRUCTIONS TO ACCOUNTANTS

ATTACHED TO

COST ACCOUNTING SECTION

FINANCE DIVISION

OFFICE OF THE CHIEF OF ORDNANCE

WAR DEPARTMENT

---

JULY 11, 1917



WASHINGTON  
GOVERNMENT PRINTING OFFICE  
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## INSTRUCTIONS TO ACCOUNTANTS.

### I GENERAL INSTRUCTIONS.

1. The following instructions are prepared by order of the Chief of Ordnance for the use and guidance of accountants attached to the office of the cost-accounting section, finance division, who will be assigned to audit accounts of contractors manufacturing articles contracted for by the United States.
2. Accountants so engaged shall be responsible to and report directly to the officer in charge of the cost-accounting section, and they must keep in mind at all times that their single mission is the auditing of accounts pertaining to the cost of contracts for the United States, and shall under no circumstances whatsoever make suggestions or enter into any discussion with contractor or his representatives pertaining to any other features of the contracts.
3. Where more than one accountant is engaged in connection with such work at the office of the contractor the officer in charge of the cost-accounting section will designate the "accountant in charge" and his assistants. Such assistants shall be responsible to the accountant in charge during such assignment.
4. Accountants assigned to work on contracts shall not leave the place assigned to them unless authorized to do so by the officer in charge of the cost-accounting section.
5. Accountants shall not under any circumstances accept gifts, gratuities, or make purchases either at cost or at regular prices from contractor, his agents, or his employees.
6. All communications pertaining to the work shall be addressed as follows:

CHIEF OF ORDNANCE,  
WAR DEPARTMENT,  
*Washington, D. C.*

Attention of Finance Division—Cost-Accounting Section.  
Subject \_\_\_\_\_

SIR:

NOTE.—(a) Restrict each communication to one subject only.  
(b) Use franked penalty envelopes for such communications.  
(c) Retain copies of all outgoing correspondence and attach reply thereto when received. Such correspondence is the property of the Ordnance Department and is subject to their order at all times.  
(d) Number each paragraph in communication.

7. The attention of accountants is directed to the following sections extracted from United States Army Regulations, 1913 (Art. LVI, secs. 732, 733, and 735):

732. For authorized journeys of civilian employees of any branch of the military service transportation requests will be obtained when practicable, but will be obtained in every case for travel over bond-aided railroads.

733. Reimbursement of actual expenses when traveling under competent orders will be allowed, under the following heads, to civilians in the employ of any branch of the military service, excepting the expert accountant of the Inspector General's Department and those mentioned in paragraph 734, viz:

1. Cost of transportation over the shortest usually traveled route, when it was impracticable to furnish transportation in kind on transportation requests.

2. Cost of transfers to and from railroad stations, not to exceed 50 cents for each transfer.

3. Cost of one lower berth in a sleeping car, seat in a parlor car, or customary stateroom accommodations on boats and steamers when extra charge is made therefor.

4. Fees to expressmen and porters on arrival at and departure from hotels and stations not to exceed 10 cents in each case when the service is rendered in connection with the transportation of baggage; fees for checking baggage at stations and hotels not to exceed 10 cents for each piece checked; and fees to sleeping-car and parlor-car porters not to exceed 25 cents per day, or 10 cents when the car is used in daytime only.

5. Cost of meals, including tips, not to exceed \$4.50 a day while en route when meals are not included in the transportation fare paid, and not to exceed \$4.50 a day for meals, tips, and lodgings during necessary delay en route, and when meals are included in the transportation fare paid, tips for meals not to exceed 15 cents each.

6. Cost of meals and lodgings, including baths, tips, and laundry work, not to exceed \$4.50 a day for the first 30 days while on duty at places designated in the orders for the performance of temporary duty and a flat per diem allowance of \$1 a day after the first 30 days of temporary duty at any one place. In time of actual war no such reimbursement of expenses or per diem allowances will be allowed to the civilian employees specified who accompany troops in the field, but in lieu thereof the allowance of tents prescribed by the War Department and a ration will be furnished such employees.

7. In lieu of reimbursement for the actual expenses provided in sections 5 and 6, civilian employees, when their orders so prescribe, may be allowed a flat per diem allowance not exceeding \$4 when traveling and when on duty for the first 30 days at places designated in their orders for the performance of temporary duty, but no per diem allowance will be allowed for temporary duty to civilian employees who in time of actual war accompany troops in the field, nor for travel on Army transports. Where a period of travel or temporary duty includes fractional parts of a calendar day the allowance for fractional parts will be as follows:

(a) If in travel status, the day will be divided into three fractional parts, allowance of \$1.33 $\frac{1}{3}$  being made for each meal.

(b) If not in travel status, the day will be divided into four fractional parts, allowance of \$1 being made for each of 3 meals and \$1 for lodging.

A statement will accompany each voucher showing the following data:

Time of departure from permanent station.

Time of arrival at temporary station.

Time of departure from temporary station.

Time of arrival at permanent station.

The provisions of paragraph 735, in so far as they require the keeping of a memorandum of the actual expenses incurred and taking of receipts, have no application to civilians operating under conditions which entitle them to a per diem allowance, except for the period while actually traveling, and then only for such items of expense as are not embraced within the per diem allowance. (C. A. R., Nos. 13, 18, 25, 27, and 45.)

735. None but the authorized items of traveling expenses of civilians will be allowed. A true memorandum of the actual expenses paid from day to day will be kept and the expenses will be fully itemized upon the voucher, which will be properly sworn to by the person rendering it. Receipts for lodging (European plan) or for board and lodging (American plan) must be furnished when practicable to obtain them, showing the dates for which the charges are made and the first and last meal or lodging. Charge for lodging pertains to the day in which the night for which the lodging was procured began. Receipts will not be required for meals except where included with lodging on the American plan, nor for railroad or steamboat fares, hack fares, baggage transfers, car fare, tips, or fees, or similar expenses. For all other expenses receipts will be taken, unless it is impracticable to obtain them, when the reason for not obtaining receipts must be explained on the voucher. The usual Pullman berth check or seat will be a sufficient receipt for sleeping-car or parlor-car accommodations.

8. Each accountant will present on War Department Form No. 350A, Public Voucher, a statement of traveling expenses on the 15th day and last day of each month, made in accordance with the foregoing regulations, but such vouchers will only be submitted covering journeys directed on written or telegraphic orders from Washington, D. C.

9. Each accountant will be required to make a daily time report on Form No. 1620 showing time worked each day and nature of work done, and accountant in charge will prepare and submit a semimonthly summary on Form No. 1621 of the time expended by himself and assistants while engaged in connection with auditing work at the contractor's office.

10. Accountants are required to devote to their work at the contractor's office at least seven and one-half hours during each working day, excepting on Saturdays, when the working day will be at least four hours. Where requirements of the work are such that more time than that specified in the foregoing is necessary to the proper execution of the work, the accountant in charge shall use his discretion in regard to the hours of work.

11. The accountant in charge will notify the officer in charge of the cost-accounting section promptly when it is possible for him to execute the work with less assistants, or when the exigencies of the situation require more assistants than are allotted to him.

12. The accountant in charge or his assistants will make no suggestions to the contractor in regard to changing his system without

first submitting in detail the suggestions or recommendations to the officer in charge of the cost-accounting section.

13. It is not the purpose of the Chief of Ordnance to recommend or install cost systems, in whole or in part, in the plants of contractors, except in such cases where it is necessary to arrange the cost accounting in order that it may be possible to determine more accurately the cost on contracts for the United States as separate and distinct from work done in the same plant for the account of others.

14. In the case of the contract to which accountant is assigned the contractor acts in the capacity of agent for the United States in the execution thereof. Therefore payments made for direct labor, direct materials, factory overhead expense, and administrative and general expense are expended by the contractor (in the name of the contractor) for the account of the United States.

15. The contractor makes the expenditure from his own funds and is reimbursed for same upon proper certification therefor by the accountant in charge, subject to final approval by the cost-accounting section, representing the Chief of Ordnance.

16. The contractor receives remuneration for his services in the form of a percentage upon the cost involved or a fixed sum per unit, as may be designated in the contract.

17. Immediately upon being assigned to the auditing of a contract the accountant shall obtain a copy of contract and acquire a complete understanding in regard to the terms and other accounting features pertaining thereto; also acquire a *complete understanding* of the "Definition of cost pertaining to contracts" that relates to and is a part of the terms of contract. He shall discuss or communicate with the officer in charge of the cost-accounting section in regard to any parts that are not clear to him before undertaking the work of auditing the accounts.

18. Immediately upon the arrival of the accountant in charge at the office of the contractor he shall proceed to acquaint himself with the details of that portion of the contractor's facilities, accounts, and organization that will be engaged upon and pertain to the execution of contracts for the United States, in order that it may be possible for him to prepare the information required in General Information, Form No. 1608.

19. In filling out the "general-information form" sufficient time should be taken and care exercised that the information contained therein shall be correct and complete. In such cases where it will require more than five days to acquire the necessary information for completion of said form the accountant in charge will so notify, in writing, the officer in charge of the cost-accounting section.

20. In making out all forms, vouchers, reports, summaries, etc., required by the cost-accounting section, use all the spaces on the form such as dates, contract numbers, etc., so that the information may be complete and thereby avoid any necessity for returning forms for correction or completion.

21. Whenever report can not be made on one blank or sheet, number the sheets, as No. 1, No. 2, etc. Each sheet must be certified to individually, regardless of the number of sheets involved, and all sheets pertaining to a report must be clipped together.

22. Accountants are cautioned against reaching conclusions too quickly and without complete understanding of all the conditions, circumstances, customs of the trade and organization with which they have to deal.

#### INSTRUCTIONS IN USE OF SUMMARIES.

23. The title "Summary" is given to those forms that will be used by the contractor and accountant in charge for reporting the general details of expenditures made and services rendered by the contractor. The summaries will accompany and support the Public Voucher, Form No. 325, made by the contractor and sent to the cost accounting section, and upon which the contractor is entitled to reimbursement.

24. The following is a list of the summaries that will be used:

- Summary of Direct Labor, Form No. 1609.
- Summary of Direct Materials, Form No. 1611.
- Summary of U. S. Materials Used, Form No. 1612.
- Summary of Special Purchases, Form No. 1613.
- Summary of Factory Overhead Expense, Form No. 1614.
- Summary of Administrative and General Expense, Form No. 1616.

25. Separate summaries will be made for each contract where contractor is manufacturing on more than one contract for the United States. Accountant in charge will make all summaries in triplicate for disposition, as follows:

*Original copy*—to cost-accounting section. This copy will be pinned or clipped to the Public Voucher which it is in support of.

*Duplicate copy*—retained by contractor and attached to its copy of the Public Voucher.

*TriPLICATE copy*—retained by accountant in charge.

26. Summaries in each case will be numbered, beginning at No. 1 and continue consecutively until the contract is completed, i. e.:

- Summary of Direct Labor, beginning at No. 1.
- Summary of Direct Materials, beginning at No. 1, etc.

27. When more than one sheet is required to complete any summary each sheet must be certified to separately, number such sheets, beginning at No. 1, and clip them together in proper number order.

28. In filing summaries, accountant in charge will fold the summary in four, and file in document file or bind with rubber band, or summaries may be filed flat where such filing facilities are available, keeping each class of summary together in proper number order.

29. Summaries will be returned to accountant in charge by cost-accounting section unless the information prescribed by the form is made complete in every detail.

30. Immediately upon completion of a summary the accountant in charge will prepare the necessary analysis and make proper entry therefor on the Analysis Sheets, Form No. 1610, that are described in paragraphs Nos. 91 to 104, inclusive, in these instructions.

31. The General Summary, Form No. 1617, will be made by accountant in charge at the end of each month from the analysis sheets and shall constitute a general statement embracing all the transactions represented by summaries sent to cost-accounting section during the month.

32. Use a General Summary sheet for each class of summary submitted, heading such sheet with proper title—i. e., Direct Labor, Direct Materials, Special Purchases, etc.

#### INSTRUCTIONS IN USE OF PUBLIC VOUCHER, FORM NO. 325.

33. The Public Voucher, Form No. 325, is made in triplicate, and will be used by contractor for obtaining reimbursement for expenditures made that are represented and supported by summaries, Forms Nos. 1609, 1611, 1612, 1613, 1614, and 1616.

34. The copies of Public Voucher will be disposed of as follows:

*Original and duplicate copies*—sent to cost-accounting section with original copies of supporting summaries pinned or clipped thereto.

*Triplicate copies*—retained by contractor with its copies of summaries attached thereto.

35. The following *certifications* are necessary on the original copy sent to cost-accounting section:

(a) *Certification of contractor.*

(b) *Certification of accountant in charge.*

36. Do not number the voucher, as this will be done by cost-accounting section, but refer thereon to the numbers of the summaries submitted therewith.

37. The column on the extreme right of the form is reserved for use by the cost-accounting section; also the spaces on the lower portion of the form beginning at item No. 19.

#### DIRECT LABOR.

38. It is necessary that accountants acquire a complete understanding in regard to that labor constituting direct labor ("Definition of cost pertaining to contracts"); also the methods employed by the contractor in accounting for such labor that pertains to contracts for the United States.

39. In some instances the plant of the contractor will be engaged on work for others while working on contracts for United States, and unless the workmen and equipment are physically separated or the work done in separate departments the accountants will be required to use extraordinary care in order to prevent the possibility of the direct labor pertaining to contracts for United States becoming confused with direct labor for others.

40. For each workman whose wages are classified as direct labor a daily record (made by workman, factory clerk, or foreman) will be maintained, giving the following information:

- (a) Description of operation, component part, or article worked upon, and the number of hours chargeable thereto.
- (b) Quantity of operations or pieces completed.
- (c) Hourly rate or piecework price.
- (d) Amount of overtime allowance.
- (e) Total amount earned.

41. Summaries of these daily time reports shall be maintained by contractor and the information classified thereon in such a manner as will make it possible to readily determine the cost of all direct labor applicable to any operation or component part or article, and all articles manufactured under any contract with the United States; these summaries are to be prepared periodically and shall conform to the pay-roll periods of the contractor. Where the direct-labor operations pertaining to the manufacture of an article are very numerous the accountant in charge will not be expected to submit a detailed statement of the direct labor by operations, but in such cases submit a statement showing charges to the component part or articles.

42. The totals of such summaries must agree with the amount of direct labor paid for. The contractor will use the form prescribed by the Chief of Ordnance (Summary of Direct Labor, Form No. 1609) for certifying to the amount of direct labor paid for on each pay roll, separate summaries being made for each contract where contractor is manufacturing on more than one contract for United States.

43. The accountant in charge will certify to the fact that he has examined the pay rolls reported on each sheet of the summary submitted with Public Voucher for payment.

44. The following is descriptive of the information required in the columns provided on Summary of Direct Labor, Form No. 1609:

Column No. 1:

*Name of operation* (such as molding, forging, cutting off, milling, drilling, reaming, boring, etc.) ; or

*Name of part* (such as base, drum, bearing, bolt, etc.).

Column No. 2: *Name of department* (such as lathe, drill, press, milling, foundry, blacksmith, assembling, painting, etc.).

Column No. 3: *Amount of wages paid at regular rates, whether on hourly or piecework basis.*

? Column No. 4: *Amount of money paid workmen for overtime, premium, bonus, etc.*

Column No. 5: *Total amount of direct labor paid for.*

45. These summaries should be sent with Public Voucher to cost-accounting section promptly in order that contractor may be reimbursed.

46. The accountant in charge must maintain the following checks on the pay roll:

- (a) Comparison of hours reported on daily time records with time-clock records.
- (b) Comparison of wage rates on pay roll with wage-rate record.
- (c) Comparison of piecework rates paid with piece-rate record.
- (d) Accompany paymaster in "paying off" whenever possible to see that all the pay envelopes are accounted for.
- (e) Verify all footings and extensions on pay rolls.

#### DIRECT MATERIALS.

47. The term "direct materials" applies to raw material and component parts purchased for use in and becoming a part of the article contracted for. (See definition of "Cost pertaining to contracts"). The following examples are given to illustrate the term more fully:

Direct materials as applied to *shrapnel* consists of steel, copper, antimony, lead, spelter, fuses, primers, containers, or packing material, etc.

Direct materials as applied to *cartridges* consists of copper, zinc, lead, powder, containers, or packing materials, etc.

Direct materials as applied to *fuses* consists of body forging, brass rod, brass wire, brass ribbon, sheet brass, brass tubing, containers, or packing materials, etc.

48. All direct materials received at the plant of the contractor for the account of the United States shall be counted, weighed or measured, marked for identification, and inspected by Ordnance inspector.

49. The Ordnance inspector will approve all prices on purchase invoices, and such approval must appear upon the purchase invoice before the accountant in charge will certify to the correctness thereof.

50. The accountant in charge shall certify to the correctness of only such invoices for direct material as are supported by receiving reports *certified to as correct by the Ordnance inspector.*

51. Accountant in charge will instruct the contractor's accountants to attach certified receiving report and freight and expense bills to invoices that have been approved, whereupon the accountant in charge will imprint rubber stamp on invoice and fill out the certification required thereon.

52. Certification (rubber-stamp imprint) required on all invoices as follows:

Date rec'd \_\_\_\_\_ for Contract No. \_\_\_\_\_.  
 Quantity by \_\_\_\_\_ Inspector.  
 Quality by \_\_\_\_\_ Inspector.  
 Prices by \_\_\_\_\_ Inspector.  
 Invoice by \_\_\_\_\_ Accountant.  
 This invoice included in Summary No. \_\_\_\_\_

53. The contractor will be reimbursed for cash actually disbursed on account of direct materials on contracts for United States; such reimbursement will be made in accordance with the Public Voucher, Form No. 325, supported by Summaries of Direct Materials, Form No. 1611, both of which are certified to by the *contractor and accountant in charge.*

54. The following is descriptive of the information required in the columns on Form No. 1611:

Column No. 1: Names of individuals, firms, or corporations to whom money was paid for direct materials.

Column No. 2: Date of disbursement, or date of contractor's check.

Column No. 3: Number of voucher, remittance register number, or check number of contractor. (Whenever possible use contractor's voucher number.)

Column No. 4: Net amount of invoices (is arrived at by deducting all cash, trade, and quantity discounts allowed by seller).

Column No. 5: Freight paid by contractor and not allowed by seller. (Use extreme care in auditing freight charges to see that amount reported as additions to direct-material cost is not again included as undistributed freight.)

Column No. 6: Add freight in column No. 5 to net of invoice column No. 4 and enter the net cost in column No. 6.

55. The invoices supporting the disbursements made by contractor for direct materials shall at all times be considered the property of

the United States, and while in the custody of the contractor are subject to the disposition and call of the Chief of Ordnance.

56. Materials and supplies purchased for the account of articles contracted for shall be stored in spaces or inclosures separate and apart from material and supplies purchased by the contractor for the account of others than the United States and marked in such wise as to always keep the same separately identified.

57. The inspectors and accountants representing the Chief of Ordnance shall at all times have access to those places where material in connection with the articles contracted for are received, stored, used, processed, and shipped, and all of the records maintained in connection therewith.

58. It will in all cases be necessary for the Ordnance inspector to furnish satisfactory evidence to the accountant in charge of the receipt of said materials and supplies, the consumption or usage of same in production, and at all times be able to account for the balance shown by the records to be "on hand" in stores or "in process" of manufacture. Record of United States Materials, Form No. 1625, may be used by accountant in charge and Ordnance inspector for keeping a record of the "Materials purchased by contractor for United States" and "Materials furnished by the United States." This form provides for a record of the receipt, consumption, and balance of stores.

59. All materials drawn from stores will be accounted for by requisitions certified to by the Ordnance inspector. The accountant in charge will tabulate such requisitions on an analysis sheet, using Form No. 1610 therefor, and post the totals therefrom from time to time to Form No. 1625.

60. The Ordnance inspector, in cooperation with the accountant in charge, will check up the balance of the various materials in stores by comparison of the records (Form No. 1625) with the physical count made.

61. The contractor shall prepare and submit to the contracting officer a complete bill of material, setting forth the following details in connection with material and parts contained in one article (or unit) contracted for:

- (a) Description of part (name part number, etc.)
- (b) Description of material contained in each part (kind of material, dimensions, weight, etc.).
- (c) Quantity of each part necessary to assemble one unit complete.
- (d) Unit cost of material used in each part.
- (e) Direct material cost of part.
- (f) Total cost of direct material in article or unit.

62. The bill of material must be checked and revised by the Ordnance inspector from time to time in order to see that it conforms to actual practice.

63. The purpose of the bill of material is to provide a means for verifying the quantities of materials used. In making a test of the materials used by means of the bill of material the following procedure is recommended:

- (a) Determine quantity of rough parts or raw material received.
- (b) Determine quantity of parts or raw material on hand, in stores.
- (c) Determine quantity of finished parts or articles manufactured.
- (d) Determine quantity of parts or articles in process of manufacture.
- (e) Determine quantity of scrap made.
- (f) (a)-(b)=(c)+(d)+(e).

#### MATERIALS FURNISHED BY UNITED STATES.

64. The contracting officer will contract for certain materials from various sources of supply, subject to orders for delivery by the Chief of Ordnance. Material so contracted for will be paid for by the United States upon proper evidence of receipt thereof at the plant of contractor. The contractor will make no disbursements from its own funds in payment therefor, but will be held accountable for the quantity delivered to it.

65. Profit will accrue to the contractor on the cost of such material only as it is used in the manufacture of the articles contracted for, unless otherwise specified in contract, such usage to be reported on Public Voucher, Form No. 325, supported by Summary of United States Materials Used, Form No. 1612, which will be submitted to cost accounting section on the last day of each month.

66. Ordnance inspector will report to the accountant in charge the receipt of and consumption of materials furnished by United States. The receipt of such material will be reported on Receiving Report of U. S. Materials, Form No. 1624, which will be prepared in three copies by Ordnance inspector for disposition as follows:

*Original and duplicate* to accountant in charge, who will forward *original* to cost-accounting section, retaining *duplicate* for his records.

*Triplicate* retained by Ordnance inspector for his record. The usage of such material may be reported on the regular requisition form used by contractor.

67. Accountant in charge will use Record of U. S. Material, Form No. 1625, for recording the quantities and values of United States materials received and used. Allot a separate sheet to each kind or lot of materials, enter thereon all the details prescribed by the form under the following headings:

- (a) Invoiced by seller or Ordnance Department.
- (b) Received by contractor.
- (c) Used on contracts.
- (d) Balance on hand.

68. The following accounts will be maintained on the contractor's books in connection with such transactions:

*H. Material furnished by United States for Contract No. \_\_\_\_.*

Debit this account with the cost of material furnished by United States and invoiced by the Ordnance Department and charged to contractor to be used by it in the manufacture of articles contracted for. Make corresponding credit to "United States" account K.

Credit this account H with the cost of such material actually used in the manufacture of the articles contracted for. Make corresponding debit to account E.

The balance of this account "H," therefore, will represent the value of all material furnished by United States that is on hand upon which no labor is performed.

*E. Material furnished by United States used on Contract No. \_\_\_\_.*

Debit this account with the value of the material furnished by the United States that is used on this contract.

*K. United States.*

Credit this account with the amounts corresponding to the debits made to account H (for material owned by United States and shipped to contractor).

The cumulative credit balance of this account should at all times correspond with the cumulative debit balance on account E plus the balance of the inventory account H.

69. Freight paid by contractor on materials furnished and paid for by United States will be reported on the Summary of Direct Materials, Form No. 1611. The same regulations apply to the auditing of such freight bills by the accountant in charge as are contained in paragraphs 88 and 89 of these instructions.

**SCRAP—DEFECTIVE AND SPOILED MATERIAL.**

70. Scrap usually resulting from the use of raw materials and materials spoiled or becoming defective in process or through failure to pass test is the property of the United States, and it becomes an important duty on the part of the Ordnance inspector to report and the accountant in charge to render accounting for all such material.

71. The Ordnance inspector will see that all scrap resulting from materials used in articles contracted for by United States is stored in places separate and apart from the scrap resulting from materials owned by contractor, and report the quantities thereof to the accountant in charge.

72. The accountant in charge will report on Form No. 1618 the approximate quantity of scrap that has been reported to him by Ordnance inspector each month, such report being made as of the last day of the month. He shall also report at the same time the amount of scrap disposed of on authority of the Chief of Ordnance, using Form No. 1619 for the purpose.

73. The amount of scrap reported by the contractor should be verified by Ordnance inspector and accountant in charge from time to time by obtaining a test on a given quantity of material used or parts produced, the result of such test being applied to the total quantity of material used or parts produced to determine the general accuracy of the weight of scrap reported.

74. The contractor shall make such disposition of the cash collected from the sale of scrap that he will be authorized to sell from time to time as may be directed by the Chief of Ordnance and apply the same as a credit in determining the total cost, crediting such sales to *M, Scrap sales account of United States.*

**FACTORY OVERHEAD EXPENSE.**

75. The conditions existing in the various plants involved makes it impractical to outline in these instructions any definite plan for apportioning or distributing factory overhead expense to the cost of the articles contracted for.

76. The attention of the accountant in charge is directed to the "Definitions of cost pertaining to contracts" and that part thereof that refers to factory overhead expense as a guide to him in making his recommendations to the cost-accounting section in regard thereto.

77. The cost-accounting section will furnish the accountant in charge with special instructions covering each particular case upon receipt of the general information form and the recommendations of the accountant in charge, together with any other data that may be required for the purpose.

78. The contractor will submit a public voucher, Form No. 325, for such expenses properly certified to by the accountant in charge and supported by Summary of Factory Overhead Expense, Form No. 1614.

#### ADMINISTRATIVE AND GENERAL EXPENSE.

79. The same remarks apply to this division of expense as outlined in the foregoing in connection with factory overhead expense.

80. The contractor will submit a Public Voucher, Form No. 325, for such expenses properly certified to by accountant in charge and supported by a Summary of Administrative and General Expenses, Form No. 1616.

#### SPECIAL PURCHASES FOR INCREASING FACILITIES.

81. Special purchases of buildings, machinery, equipment, and the like may be made by the contractor on the authority of the contracting officer and such authority must be contained in writing in every instance.

82. The contractor will be reimbursed by the United States for such special purchases upon presentation of Public Voucher, Form No. 325, supported by the evidence required on Summary of Special Purchases, Form No. 1613.

83. The cost-accounting section will return to contractor any public voucher or summary of special purchase that are not accompanied by original vendor's invoice, architect's estimate, or engineer's certificate. All such documents must be approved by contractor, Ordnance inspector, and accountant in charge.

84. The accountant in charge will verify the following details in connection with each purchase:

First. Obtain written authority of contracting officer and determine whether the purchase made conforms in every particular thereto.

Second. Obtain certification of Ordnance inspector that the property is received in good order, conforms to all specifications, and is necessary in connection with the execution of contracts for the United States.

Third. Obtain "work order" or "cost record" of contractor in which is contained the details of cost incident to the installation or erection of the property; also freight bills paid by contractor in order to present a complete cost in connection with each purchase on the Summary of Special Purchases, Form No. 1613, all of which must have the approval of the Ordnance inspector.

85. The cost of such special purchases is not subject to any addition for profit to the contractor unless otherwise specified in contract.

86. The accountant in charge and Ordnance inspector will render semiannually a complete return of property owned by the United States as required by existing regulations and will keep records that will make it possible for them to check the correctness of the physical count reported by them.

87. The accountant in charge will instruct the contractor to open a special account, where such purchases are involved, as follows:

##### 1. *Special purchases made for United States.*

Debit this account with the payments made by contractor on account of special purchases of buildings, machinery, equipment, special appliances, etc., and all expenses in connection therewith, that has been purchased on authority of the contracting officer, and that becomes the property of the United States.

Credit this account with the cash received from the United States in payment therefor.

#### AUDITING FREIGHT BILLS.

88. Accountant in charge shall accept only original received freight bills *approved by Ordnance inspector* as additions to invoices for materials.

89. In auditing freight bills representing charges to direct materials, etc., on contracts for the United States, the following conditions of purchase contract, purchase order, etc., must be observed:

- (a) All freight paid on direct materials or special purchases must be charged thereto and included as part of the cost thereof on Summary of Direct Material, Form No. 1611, or Summary of Special Purchases, Form No. 1613.
- (b) When *freight is prepaid by seller and added to invoice*, see that the amount added agrees with the freight expense bill.
- (c) When *freight is allowed by seller and deducted from its invoice*, see that the amount so deducted is in agreement with the amount on freight expense bill paid by contractor.
- (d) When *freight is allowed by seller and not deducted from invoice*, see that the amount paid by contractor is deducted from invoice.
- (e) Compare invoice weights and weights shown on receiving reports with weights charged on freight bills.
- (f) Accountant in charge must acquaint himself with the routing and freight rates applicable to the materials on contracts and be guided accordingly in the auditing of freight bills.

- (g) *Claims against common carriers* for shortages and excess charges must be credited at once to the direct materials, accounts and collection made by the contractor, the contractor in all cases assuming the accounts for claims.
- (h) Freight charges applying to direct materials must be made directly from freight-disbursement voucher to "direct material accounts." Any other charges for freight included in the Summary of Factory Overhead Expense, Form No. 1614, must be supported by Analysis of Freight, Form No. 1615, showing in detail the purpose for which such freight was paid.

#### **DISCOUNTS.**

90. The United States under all contracts is entitled to all discounts (trade, quantity, and cash) taken by the contractor. Accountant in charge will report to the cost accounting section any omissions in this particular, giving reasons why discount was not taken.

#### **INSTRUCTIONS IN USE OF ANALYSIS SHEETS, FORM NO. 1610.**

91. It has been considered advisable to adopt one form that will apply to or can be adapted to all forms of analyses, the advantage accruing therefrom being a reduction in the number of forms involved and elimination of a quantity of files and binders.

92. The analysis sheets are designed primarily for use by the accountant in charge for keeping a record of the details, distributions, and classifications supporting the expenditures represented by the several summaries referred to in these instructions.

93. It will be necessary to maintain a series of analysis sheets in connection with each and in support of the following summaries and reports:

- Summary of Direct Labor, Form No. 1609.
- Summary of Direct Materials, Form No. 1611.
- Summary of U. S. Materials Used, Form No. 1612.
- Summary of Factory Overhead Expense, Form No. 1614.
- Summary of Administrative and General Expense, Form No. 1616.
- Report of Scrap Made, Form No. 1618.
- Report of Scrap Shipped, Form No. 1619.

94. Immediately upon completion of a summary the accountant in charge will enter the detail thereof on its respective analysis sheet.

95. The sheets are printed on one side only and punched for binding on the right-hand margin. The accountant in charge will insert proper headings in columns Nos. 6 to 17 (using pen and ink).

96. Where it is necessary to use more columns for a distribution than are contained on one sheet an additional sheet can be cut on the line dividing columns No. 5 and No. 6 and the distribution continued on the cut sheet, inserting it in the binder on top of the main sheet.

97. Sheets pertaining to one class of analysis should be kept together and index tabs used for separating the various classes of analysis from each other in the binder that is provided therefor.

98. One binder will be furnished each accountant in charge, unless in his judgment, the volume of detail involved will require more than one.

99. The accountant in charge will be required at the end of each month to prepare from the various analysis which he will maintain a general summary thereof for the cost accounting section. These general summaries showing detail distribution must be in agreement with the total of the summaries presented with public vouchers during the month.

#### **ANALYSIS OF DIRECT LABOR.**

100. Accountant in charge will maintain two forms of analysis in connection with direct labor.

##### *First. Analysis of direct labor by departments.*

(A) Where contractor is operating several producing departments in connection with contract *and in the same department where work is being done for others; then two columns will be allotted for each department.* In the first column enter the *total amount* of direct labor paid for on all work done in the department. In the next column enter only the amount of direct labor applying to the contract with United States, and which is reported on the Summary of Direct Labor, Form No. 1609. The reason for obtaining the total direct labor paid for under such conditions is for the purpose of determining the proper apportionment of overhead expense applying to the contract for United States.

(B) Where the *entire activities* of a producing department are devoted to the execution of contract, then only one column will be required for the direct labor.

##### *Second. Analysis of direct labor, by operation, component part, or article.*

This analysis will be made from the daily time reports of workmen engaged on direct labor. Where it is possible to obtain direct labor by operation, it is desirable to do so; if this is impractical obtain direct labor by part, number, or article.

Use two columns, the first one for the *pieces* reported by Ordnance inspector as finished, and the next column for the *direct labor paid for thereon*. The total of the amounts in the latter columns will be equal to the total of the amounts entered in the columns of the first analysis that represent charges to contract, and which in both cases must agree with the amounts reported on the **Summary of Direct Labor**, Form No. 1609.

#### ANALYSIS OF DIRECT MATERIALS.

**101.** The direct materials reported on the **Summary of Direct Materials**, Form No. 1611, will be analyzed by accountant in charge in order to determine the quantities and values of the principal materials entering into the cost of direct materials.

Attention is directed to paragraph No. 47 of these instructions, which illustrate examples of what constitute principal direct materials.

Use two columns for each principal material; enter in the first column the quantity (weight, pieces, etc.) and in the adjacent column enter the cost thereof (net cost consists of invoice cost less discount plus freight).

#### ANALYSIS OF FACTORY OVERHEAD EXPENSE.

**102.** Accountant in charge will maintain two forms of analysis in connection with factory overhead expense.

*First. Analysis of factory overhead expense by accounts.*—Use a column for each expense account; insert at the top the names of accounts and enter therein the amounts of expenses reported on each **Summary of Factory Overhead Expense**, Form No. 1614.

*Second. Analysis of factory overhead expense by departments.*—Use a separate sheet for each department and insert at the top of the columns the names or titles of expense accounts and enter therein the amounts of expense.

**103.** The total of any expense column on the *analysis of factory overhead expense by accounts* must balance with the totals of the same expense columns appearing on all of the sheets used in connection with *analysis of factory overhead expense by departments*.

#### ANALYSIS OF ADMINISTRATIVE AND GENERAL EXPENSE.

**104.** Use a column for each expense account, insert at the top the name of accounts and enter therein the amounts reported on the **Summary of Administrative and General Expense**, Form No. 1616.

#### CHART OF ACCOUNTS.

*H*

**105.** It is necessary and important that the contractor maintain separate books, or separate accounts in his present books, in connection with transactions involved in the execution of each contract for the United States.

**106.** The accounts prescribed in the following represent general divisions of cost accounts and may be considered principal accounts or controlling accounts subsidiary to which may be maintained any number of accounts for the purpose of obtaining more extensive analysis of each of the principal elements entering into cost.

**107.** The following accounts (with explanatory notes) are suggested for this purpose:

**A. Direct labor—United States contract No. ——**

Debit this account with the wages paid by contractor for direct labor (see definition). Reference should be made in posting to the source of entry, as pay-roll period, pay-roll number, etc.

**B. Direct materials—United States contract No. ——**

Debit this account with the actual cash disbursements made by contractor for direct materials, i. e., "net invoice cost" (see definitions).

**C. Pro rata of factory overhead expense—United States contract No. ——**

Debit this account with the factory overhead expense applicable to this contract (see definition).

**D. Pro rata of administrative and general expense—contract No. ——**

Debit this account with administrative and general expense applicable to the contract (see definition).

**E. Material furnished by United States used on—United States contract No. ——**

Debit this account with the value of the material furnished by the United States that is used on this contract (see account H). (The United States may order material shipped from source of supply direct to plant of contractor which material is paid for by the United States and is invoiced and charged to contractor.)

**F. Profit—United States contract No. ——**

Debit this account with the profit accruing to contractor on the payments made by him as represented in accounts A, B, C, D, and E.

108. The debits in the foregoing accounts A, B, C, D, E, and F represent the disbursements made and services rendered by the contractor that contribute directly to the cost of the article contracted for. No credits will be made to these accounts except as may be necessary in connection with current adjustments. The debit balances will be cumulative until the conclusion and final settlement of the contract.

109. The contractor may elaborate upon these accounts if he so desires in order to obtain a more detailed analysis of the five principal elements entering into the cost of contracts, and shall designate such additional accounts as A1, A2, B1, B2, etc., in order to maintain a uniformity in the general classification of cost outlined in the foregoing.

*G. Cash received from United States on contract No. \_\_\_\_\_.*

Credit this account with the cash received from the United States applying upon certified expenditures made by contractor on account of items A, B, C, D, E, and F. The voucher accompanying the reimbursing check of the United States will designate the accounts on which the reimbursement applies, the contractor can, therefore, if he so desires, classify the cash received in separate accounts as follows:

G1—*On account of direct labor.*

G2—*On account of direct materials.*

G3—*On account of factory overhead expense.*

G4—*On account of administrative and general expense.*

G5—*On account of profit.*

*M. Scrap sales on account of United States on contract No. \_\_\_\_\_.*

Credit this account with cash received from sale of scrap as may be directed by the Chief of Ordnance.

**ORDNANCE INSPECTORS.**

110. The Chief of Ordnance will assign Ordnance inspectors to plants of contractors for the purpose of inspecting raw materials and finished product and various other duties assigned to them by their directing officer in connection with inspection that pertains to articles contracted for by the United States.

111. The accountant in charge will furnish the Ordnance inspector with such information as he may request from time to time in regard to all accounting matters, and each is required to extend to the other the necessary cooperation to the end that a complete accounting of the property of the United States may be made and maintained.

112. The Ordnance inspector should acquaint himself with the terms and conditions of contract, the "Definitions of cost pertaining to contracts," and the "Instructions to accountants."

113. The principal duties of the Ordnance inspector that relate particularly to the work of the accountant in charge are as follows:

*In regard to direct materials:*

- (a) Certification on all receiving reports as to quality and quantity.
- (b) Approval on all invoices as to prices paid by contractor.
- (c) Approval of all freight bills as to classifications, weights, and rates.
- (d) Approval of all requisitions made on stores, accounting for the use or consumption of all direct materials.
- (e) Taking of physical inventories.

*In regard to special purchases for increasing facilities:*

- (a) Approval of architect's or engineer's certificates, invoices, work orders, etc.
- (b) Approval of freight bills as to classification, weights, and rates.
- (c) Physical inventory of such property as may be required from time to time by the Chief of Ordnance.

*In regard to material furnished by United States:*

- (a) Certification on all receiving reports as to quality and quantities.
- (b) Approval of freight bills as to classification, weights, and rates.
- (c) Approval of all requisitions made on stores, accounting for the use of this material.
- (d) Taking of physical inventories.

*In regard to scrap:*

- (a) Designate place where such property will be stored.
- (b) Making of tests to ascertain whether all scrap is accounted for.
- (c) Reports of scrap made.
- (d) Reports of scrap shipped.
- (e) Taking of physical inventories.

*Miscellaneous:*

- (a) Checking of bill of material from time to time as required and revision of same so that it conforms to actual practice.
- (b) Reports on quantity of parts or articles finished, stored, and shipped.

## ACCOUNTANT'S STATIONERY AND SUPPLIES.

114. Accountants will be furnished with rubber stamps as follows: Imprint for "Purchase invoices" (see par. No. 46); imprint for "Other documents" examined.

115. The rubber-stamp imprint for "Other documents" examined will be used on all documents such as pay rolls, pay-roll summaries, vouchers, checks, cost records, cost summaries, journal entries, etc.

116. Accountants will be required to write their initials in the space provided therefor in the *imprint* on all papers examined, using pen and ink or indelible pencil therefor.

117. Accountants will be furnished with the necessary supplies such as rubber stamp, penalty envelopes, pencils, accountant's working paper, together with a supply of all forms referred to in the instructions, and will be required to furnish receipt therefor.

118. Accountants will advise the cost-accounting section of their requirements of stationery on Requisition for Accountant's Supplies, Form No. 1622, in ample time to provide for a supply to reach them before their supply is entirely exhausted. The requisition consists of three copies for disposition as follows:

*First and second copies*, sent to cost-accounting section.

*Third copy*, retained by accountant until he receives the supplies, whereupon he will enter quantities received and mail same to cost-accounting section.

119. Four and ten column working paper can be used by accountants for submitting analyses, schedules, etc., to cost-accounting section in such cases where it is impractical to furnish the information on summary forms or other printed reports.

120. Where contractor has in effect certain printed forms used by it for statements or schedules of expenses, the accountant in charge is required to submit them to cost-accounting section for approval, and, if satisfactory, may be authorized to use them in connection with the summaries, the summaries in such cases being used for recapitulations of such statements and for certification in regard thereto.

WAR DEPARTMENT,

OFFICE OF THE CHIEF OF ORDNANCE,

Washington, July 11, 1917.

FORM NO. 1623.  
Ed. July 11-17—2,000.



WAR DEPARTMENT  
OFFICE OF THE CHIEF OF ORDNANCE

**DEFINITION OF "COST"  
PERTAINING TO CONTRACTS**

THESE DEFINITIONS ARE SUBJECT TO MODIFICATION  
OR CHANGE AS MAY BE FROM TIME TO  
TIME DETERMINED BY THE  
CHIEF OF ORDNANCE

JUNE 27, 1917



WASHINGTON  
GOVERNMENT PRINTING OFFICE  
1917

WAR DEPARTMENT  
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## DEFINITION OF "COST" PERTAINING TO CONTRACTS.

[These definitions are subject to modification or change as may be from time to time determined by the Chief of Ordnance.]

1. The purpose of these definitions is to convey to the contractor the general principles involved in the accounting for the cost of the articles contracted for with the United States, and which will be adhered to by the contracting officer in the settlement of and payment therefor, and also in so far as it is possible at the present time to furnish suggestions for the guidance of the contractor in accounting matters pertaining to contracts with the United States.

2. It is not the purpose of the contracting officer to prescribe the form of accounting, or the particular books and records to be used by the contractor in connection with contracts for the United States, or to suggest changes of any kind where the contractor has established accounts, books, and records that conform to good accounting practice and can furnish therefrom the necessary data required to compute the cost of manufacture as defined herein.

3. It is the desire, however, of the contracting officer that in so far as it is practicable and possible to do so the contractor shall maintain separately from all other records pertaining to his business, the records and accounts pertaining to contracts with the United States. The contractor may be directed to maintain a separate ledger to contain the necessary accounts in connection with such contracts, a separate bank account, also separate record of pay rolls, stores records, vouchers, summaries, bank checks, etc., for the purpose of facilitating the clerical labor of both parties concerned.

4. The contractor shall supply the contracting officer with such details and statistics pertaining to the cost of production as he may require from time to time, on forms to be supplied by the contracting officer. The cost shall be calculated from the date the contractor shall commence any work or manufacturing operation in connection with articles contracted for, of which date he shall duly notify, in writing, the contracting officer and the Finance Division, Ordnance Department.

5. The following general definition of cost is contained in contracts and indicated therein as "Schedule II."

6. The term "Cost" as applied to this contract consists of four elements, which are concretely defined in the following:

(1) *The cost of all direct labor* paid for by the contractor and used in the production of the articles contracted for herein.

(2) *The cost of all direct materials* contained in or forming part of the articles contracted for herein.

(3) *Prorata share of factory overhead expenses* applicable to and necessary in connection with the manufacture of the articles contracted for herein.

(4) *Prorata share of administrative and general expense* applicable to and necessary in connection with the manufacture of the articles contracted for herein.

#### **1. Direct Labor.**

7. Direct labor (or known or productive labor) consists of wages paid for labor performed upon (and that can be charged directly to) the articles contracted for or the component parts thereof. Allowance for overtime and premium shall be considered as direct labor and chargeable to the operation, component part, or article on which such overtime or premium applies. (Indirect Labor unknown, see Factory Overhead Expense.)

8. The contractor shall maintain a daily time report in connection with each workman engaged on direct labor, setting forth the following information:

- (1) Description of operation, component part or article worked upon, and the number of hours chargeable thereto.
- (2) Quantity of operations or pieces completed.
- (3) Hourly rate, or piecework price.
- (4) Amount of overtime allowance.
- (5) Total amount earned.

9. Summaries of these daily time reports shall be maintained by contractor, and the information classified thereon in such a manner as will make it possible to readily determine the total cost of all direct labor applicable to any operation, component part, or article, and all articles manufactured under contract with the United States; these summaries to be prepared periodically, and shall conform to the pay roll periods of the contractor.

10. The rate of wages paid shall not exceed the rate of wages being paid for the various classes of work involved in the locality in which the work is done. In general, salaries and wages will conform to the necessities of the situation.

#### **2. Direct Materials.**

11. The term "Direct materials" applies to raw materials and component parts purchased for use in and becoming a part of the article contracted for. Where contract specifications call for special pack-

ing and containers the cost of such packages and containers shall be classified as direct materials.

12. The contractor shall prepare in advance and submit to the contracting officer a complete bill of material setting forth the following details in connection with material and parts in one article (or unit) contracted for:

- (1) Description of part (name part number, etc.)
- (2) Description of material contained in each part (kind of material, dimensions, weight, etc.)
- (3) Quantity of each part necessary to assemble one unit complete.
- (4) Unit cost of material used in each part.
- (5) Direct material cost of part.
- (6) Total cost of direct material in article or unit.

13. The cost of "direct materials" will be the "net cost" to the contractor, i. e., invoice cost, less cash, trade, and quantity discounts; plus duty, import expense, freight and drayage paid by contractor.

14. The contractor shall take advantage of all discounts available, and when unable to take such advantage shall promptly notify the contracting officer of his inability and the reasons therefor.

15. The contractor shall always be in a position to furnish the contracting officer with original purchase invoices, with original received freight and expense bills attached thereto. The contracting officer will furnish the necessary forms in connection with the receiving of, and the making of reports and summaries, of the cost of direct materials used in the articles contracted for.

16. Materials and supplies purchased for the account of the articles contracted for shall be stored in spaces or inclosures separate and apart from material and supplies purchased by the contractor for the account of others than the United States, and marked in such wise as to always keep the same separately identified.

17. The inspectors and auditors representing the contracting officer shall at all times have access to those places where material in connection with the articles contracted for is received, stored, used, processed, and shipped, and all of the records maintained in connection therewith.

18. It will in all cases be necessary for the contractor to furnish satisfactory evidence of the receipt of said materials and supplies, the consumption or usage of same in production, and at all times be able to account for the balance shown by the records to be "on hand" in stores or "in process" of manufacture.

19. It shall be within the jurisdiction of the inspectors representing the contracting officer to direct the collection of scrap, designate storage places for same, and certify to the quantity or weight sold.

20. If the contracting officer authorizes the contractor from time to

time to sell scrap and defective material resulting from materials owned by the United States, the statements of such sales shall be submitted to the contracting officer on forms provided for the purpose, and the proceeds thereof shall be credited to the account of contracts for the United States.

#### SPECIAL PURCHASE OF TEMPORARY BUILDINGS, MACHINERY, AND EQUIPMENT.

21. Temporary buildings, machinery, equipment, etc., purchased by the contractor upon the authority of the contracting officer for use in connection with manufacturing the articles contracted for, which equipment becomes the property of the United States shall not be classified as direct materials, upon which any percentage of profit shall be paid to the contractor. The cost of the same shall be reported to the Finance Division, Ordnance Department, on forms provided therefor.

22. Labor performed by the contractor in connection with the setting, erection, or construction of such equipment shall be subject only to the overhead expense that applies to the department of the contractor's plant that furnishes the labor, such as direct supervision thereof, time keeping, and expense incidental thereto and a reasonable allowance for factory management, general plant expense, or administrative expense.

23. The total cost of such equipment including erection or setting shall not be subject to any addition for profit to the contractor as aforesaid unless otherwise specified in the contract, or approved in writing by the contracting officer.

24. The contractor shall, as he may be called upon by the contracting officer, furnish complete detailed inventories of the property of the United States in the custody of the contractor.

#### 3. Factory Overhead Expense.

25. Factory overhead expense is represented by the wages paid to superintendents, foremen, factory clerks, and indirect labor (or non-productive labor), also supplies, perishable tools, and materials used in connection with the operation of the machinery and the upkeep of plant, depreciation, portion of taxes, portion of insurance, and other expenses hereinafter enumerated.

26. The contractor shall maintain his records in such a manner as will enable the contracting officer to determine the quantities and detail costs of all items of factory expense entering into the operation of each of the manufacturing departments through which the articles contracted for pass in process of manufacture in the period during which the plant is manufacturing the articles contracted for.

27. An outline of accounts is herein suggested by the Finance Division (cost accounting section) of the Ordnance Department, and it is recommended that these or similar accounts be maintained by the contractor, unless the contractor has in effect accounts of a similar nature, or accounts better adapted to the requirements of his plant. This outline indicates the various classes of expense that are recognized as factors in that portion of the cost referred to as "Overhead expense."

28. The following principal accounts are recommended in connection with the accounting for the expense of each factory department (producing or nonproducing) that contributes directly or indirectly to the cost of the articles contracted for:

- (1) *Supervision and clerical salaries* (foremen, clerks, timekeepers, etc.).
- (2) *Indirect labor* (nonproductive, such as trucking, cleaning, inspecting, repair men, oilers etc.).
- (3) *Supplies used* (oils, waste, cleaning, hardening, tempering and grinding supplies, etc.).
- (4) *Fuel* (oil, coal, coke, gas, etc.).
- (5) *Small tools* (of a perishable nature, such as drills, files, reamers, blades, saws, etc.).
- (6) *Water*.
- (7) *Repairs to machinery and equipment.* (See special reference "Repairs.")
- (8) *Liability insurance.*
- (9) *Insurance on machinery and equipment* (when owned by contractor). (See special reference "Insurance.")
- (10) *Depreciation of machinery and equipment.* (See special reference "Depreciation.")
- (11) *Power* (pro rata share of power expense).
- (12) *Building maintenance* (pro rata share of building maintenance expense). (See accounts Nos. 20 to 25 for distribution.)
- (13) *Factory management and general plant expense* (pro rata share of factory management and general plant expenses). (See accounts Nos. 30 to 35 for distribution.)

#### MAINTENANCE OF BUILDINGS.

29. The following accounts are recommended in connection with the accounting for the expense incidental to the *maintenance of buildings* (where buildings are owned by contractor) in which are contained departments contributing to the production of the articles contracted for.

- (20) *Labor* (janitors, watchmen, elevator men, electricians, millwrights, etc.).

(21) *Repairs to buildings* (extraordinary repairs become a charge to the reserve account established for depreciation). (See special reference to "Repairs.")

(22) *Power, light, and heat.*

(23) *Taxes on real estate and buildings (accrued).*

(24) *Insurance on buildings (accrued).*

(25) *Depreciation of buildings.*

30. The expense represented by accounts numbered 20 to 25, constitutes the charge for *maintenance of buildings* and can be distributed over the departments contained therein based upon the floor space occupied. *Power on estimated or actual usage*

#### FACTORY MANAGEMENT AND GENERAL PLANT EXPENSE.

31. The following accounts are recommended in connection with the accounting for the necessary expense incidental to *factory management and general plant expense.*

(30) *Salaries* (factory manager, superintendents, purchasing agent, cost accounting, and factory-office staff, employment and welfare, etc.).

(31) *Personal taxes* (applicable to the plant, and particularly to the property involved in the manufacture of the articles contracted for).

(33) *Undistributed freight and express and drayage* (on incoming materials and supplies purchased and used on contracts for the United States).

(34) *General plant supplies and expense* (stationery, sanitary supplies, telephone, traveling, ice, water, etc.).

(35) *Safety, fire prevention, etc.*

32. The expense represented by accounts numbered 30 to 35 can be diffused over the factory departments based on the pay roll (direct labor basis may be used where in effect).

#### APPLICATION OF FACTORY OVERHEAD EXPENSE TO PRODUCT.

33. The purpose of this accounting is to distribute the cost of *building-maintenance expense* (plant rental), *factory management and general plant expense*, and all *nonproducing departments* over the *producing departments* and in turn distribute the cost of *producing departments* to the *product* made therein.

34. In such cases where all the facilities of the contractor's plant are devoted exclusively to the manufacture of articles contracted for by the United States, the distribution of overhead expense involves no complications and will not require the introduction of any special accounting in connection therewith.

35. In such cases where the facilities of the contractor's plant are devoted in part to the work of others than the United States the basis best adapted to the individual conditions or requirements of the plant must be recognized and used. There are three methods in general use, viz:

(1) As a per cent on direct labor.

(2) Direct labor hour.

(3) Machine hour.

36. Whenever an equitable basis of distribution of overhead expense is established in any plant, it shall be continued and used for the determination of cost. Wherever no equitable basis or no basis whatever exists the auditor representing the contracting officer, in cooperation with the contractor, shall establish a basis which will be subject in all cases to the approval of the contracting officer and to later revision if necessary.

37. The following special references are made to certain elements of expense that are worthy of the attention of the contractor:

#### REPAIRS.

38. The cost of repairs considered as overhead expense are those repairs and alterations which are made currently to provide for the ordinary and regular upkeep of the plant, the cost of which is a usual and fairly consistent annual charge. Repairs and alterations of a general nature which are necessary only at intervals of more than a year, or replacements and unusual repairs which would involve a significant increase in the overhead expense shall not be considered as expense, but shall apply against the reserve established to provide for depreciation.

#### INSURANCE.

39. The contracting officer assumes all fire risks in connection with the materials delivered by his order to the plant of the contractor and all material purchased by the contractor for the manufacture of articles contracted for by the United States. The contractor therefore shall not assume as a cost insurance expense in connection with such material or the direct labor or expenses thereon as specified in the foregoing, unless otherwise authorized by the contracting officer.

#### DEPRECIATION.

40. Depreciation shall be considered as an element of expense allowable on the property *owned* and used by the contractor in connection with the manufacture of the articles contracted for. For the purposes of determination of an equitable basis for depreciation on

property the contracting officer will be influenced by definitions set forth in the revenue bill approved September 8, 1916, section 302, together with Treasury Decisions in respect thereto in so far as the requirements of said revenue bill and Treasury Decisions are applicable to and not inconsistent with the terms of contract and special conditions thereto pertaining.

[Extract from revenue bill approved Sept. 8, 1916.]

**TITLE III, SECTION 302.**

(f) A reasonable allowance according to the conditions peculiar to each concern, for amortization of the values of buildings and machinery, account being taken of the exceptional depreciation of special plants.

41. Regulation No. 39, issued October 24, 1916, by the Treasury Department, No. 2384, interpreting depreciation as stated in a munition-tax law of September 8, 1916, reads as follows:

ART. XX. (A) The deduction authorized on account of depreciation relates to the loss due to use, wear, and tear of physical property, owned and used by a manufacturer, but which is not specially designed or installed for the purpose of manufacturing munitions or parts thereof, and which, without material alteration and change, may be used in connection with any other business in which the person is or may be hereafter engaged.

(B) The annual deduction on this account will be a reasonable allowance determined upon the basis of the cost and probable number of years constituting the life of the property.

(C) If the same building and machinery or other equipment are used coincidentally for the purposes other than the manufacture of munitions or parts thereof, then the amount deductible from the gross income returned for the purpose of this title on account of depreciation will be apportioned in accordance with the rule hereinbefore set out for apportioning running expenses, and the deduction from the gross income contemplated by this title will be made accordingly.

ART. XXI. (A) Section 302 of this title authorizes a deduction to meet the conditions peculiar to each concern and has for its purpose the amortization of the values of buildings and machinery constituting special plants which will, except for salvage, have no substantial value to the manufacturer when the contracts executed or to be executed for the manufacture of munitions or parts thereof have been fully performed.

(B) The deduction authorized on this account relates to property (buildings, machinery, and equipment) especially constructed or installed for use in the manufacture of munitions or parts thereof and which, when no longer useful for this purpose, can not, without material alteration or change, if at all, be used for any other purpose, the life of which property is substantially coincident with the life of the contracts.

(C) The annual allowance to be deducted on this account will be determined by estimating the probable number of years the property will be used in the manufacture of munitions or parts, and by dividing the cost of such property, less estimated salvage, by such probable number of years. The quotient thus obtained will measure the amount to be deducted each year on account of amortization, until the cost of the property has been extinguished. Or the cost of the property may be amortized on the basis of the quantity of munitions

or parts thereof manufactured under contracts in connection with the fulfillment of which the buildings and machinery or equipment were specially constructed or installed.

(D) Neither the depreciation nor the amortization deduction allowable in the return made for the purpose of this title will relate to property used in connection with any other business carried on by the manufacturer. Amortization applies only and particularly to those special plants and equipment whose life and value, except salvage, will terminate with the end of the business for which they were erected and equipped. It is to be differentiated from depreciation in that depreciation relates to property whose life and value is not dependent upon or materially affected by its use in the manufacture of munitions or parts thereof.

**4. Administrative and General Expense.**

42. Administrative and general expense consists of that expense necessary and incidental to the administration and general office activities of that portion of the contractor's business that is devoted to and necessary to the fulfillment of contracts with the United States.

43. It is definitely understood that there shall be excluded from the administrative and general expense all expense incidental to the promotion of or making sales, advertising, losses on bad debts, contributions, subscriptions, and expenses of similar nature. The contractor shall maintain in a separate classification or division of accounts all salaries and expenses incidental to the selling department of his business.

44. The following accounts are recommended in connection with the accounting for the expenses incidental to the *Administrative and General* activities of the business that pertain to contracts with the United States:

(40) *Salaries of executives.*  
(41) *Salaries of office employees* (exclusive of sales and advertising department employees).

(42) *Salaries of engineering department* (engineers, draftsmen, and supplies used in connection with work on contracts for the United States).

(43) *Taxes* (excepting Federal taxes and taxes included in account No. 23 under maintenance of buildings and account No. 31 under factory management and general factory expenses).

(44) *Stationery and supplies* (for office use).  
(45) *Postage, telephone, and telegraph.*  
(46) *Traveling.*

(47) *Incidental expenses* (not provided for in the foregoing).

45. In such cases where a part of the plant of the contractor is engaged in the manufacture of articles for others than the United States, the expense represented in expense accounts Nos. 40 to 47, shall be prorated either on a basis of the total factory cost (total factory cost being made up of the sum of all direct labor, direct mo-

terials, and factory overhead expense) or on a basis of the direct labor.

46. Where the entire product of the plant is devoted to the completion of contracts for the United States then shall the total of administrative and general expense become a charge to contracts of the United States.

47. Interest on investment or on bonded debt shall not be considered as an expense entering into the cost of contracts for the United States, but the contracting officer will reimburse the contractor for interest paid by it on money borrowed to finance the purchase of materials necessary to complete contracts for the United States. Interest cost will not be considered as a cost to the contractor upon which profit is to be calculated.

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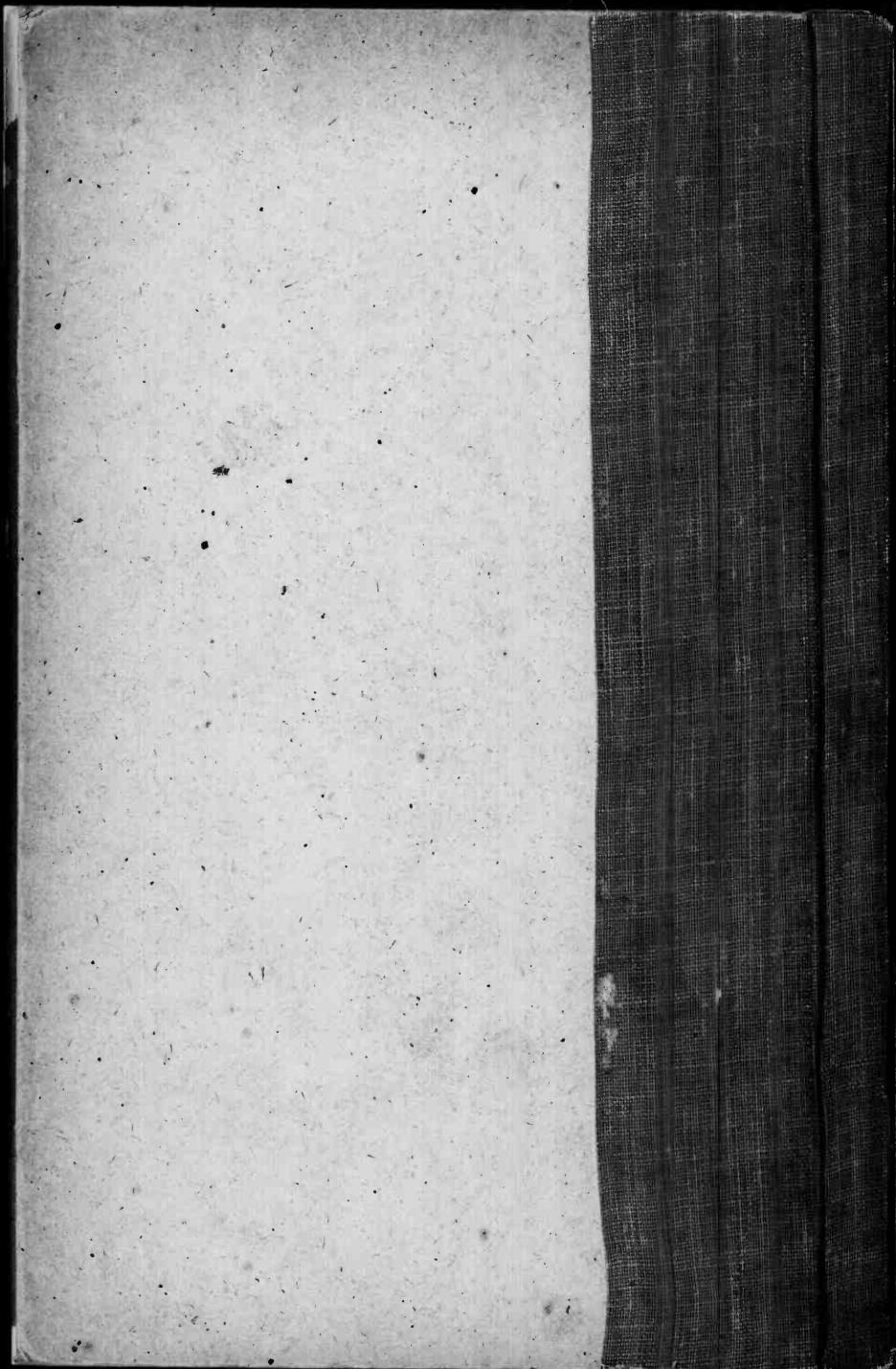
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